

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L LIMA 3167

LIMDIS

E.O. 11652: GDS
TAGS: EFIN PE, MASS
SUBJECT: PERU'S FINANCIAL CRISIS - MEETING WITH THE FOREIGN MINISTER

REF: STATE 091084

SUMMARY: I CALLED ON FONMIN DE LA PUENTE TO OBTAIN HIS RE-ACTIONS TO THE BUSHNELL-GARICA BEDOYA INTERVIEW AND TO DISCUSS NEXT STEPS. WE REVIEWED THE DESIRABILITY OF PROGRESS BETWEEN THE IMF AND THE GOP BEFORE A DE LA PUENTE VISIT TO WASHINGTON. THE GOP ECONOMIC PACKAGE IS STILL IN THE PROCESS OF CABINET DEBATE. DE LA PUENTE TERMED THE RECENT ACCORD ON SOVIET DEBT AS COMPLETELY SUCCESSFUL. HE ALSO STATED THE IDB HAS AGREED TO FORM A CONSULTATIVE GROUP FOR PERU, SUBJECT TO PRIOR GOP-IMF AGREEMENT. DE LA PUENTE ASSURED ME THE WEST GERMAN SUBMARINES WERE CONTRACTED BEFORE THE PRESIDENTIAL DECISION NOT TO ACQUIRE NEW ARMS, AND I EXPRESSED DEEP CONCERN ABOUT THE EFFECT OF THIS COSTLY PURCHASE ON THE PERUVIAN DEBT STRUCTURE. END SUMMARY.

1. I CALLED ON THE FOREIGN MINISTER APRIL 12 TO OBTAIN HIS REACTIONS TO THE BUSHNELL-GARCIA BEDOYA INTERVIEW (REFTEL) AND TO SOUND HIM OUT ON NEXT STEPS. DE LA
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PUENTE SAID WHAT HE UNDERSTOOD OF BUSHNELL'S PRESENTATION OF OUR POSITION HAD ITS POSITIVE ASPECTS. HE ASKED IF IN VIEW OF THE PRESIDENT'S PROBABLY UNAVAILABILITY, IT MIGHT BE POSSIBLE FOR HIM TO SEE MRS. CARTER. I SAID I WOULD INQUIRE AND LET HIM KNOW.

2. THE MINISTER SAID HE WANTED OUR CANDID ADVICE ON

WHEN AND UNDER WHAT CONDITIONS HE SHOULD GO TO WASHINGTON.
I SAID IT SEEMED CLEAR TO ME THAT HE SHOULD NOT GO UNTIL
AT LEAST THE ESSENTIALS OF AN AGREEMENT WITH THE IMF
HAVE BEEN WORKED OUT. DE LA PUENTE REPLIED THAT HE
WANTED OUR ADVICE ON THAT POINT ALSO; I.E., WHEN WE
THOUGHT FROM OUR DISCUSSIONS WITH THE FUND ABOUT PERU
THAT THERE EXISTED A SUFFICIENT "RELAXATION" OF THE
DEMANDS ON PERU TO MAKE AN AGREEMENT POSSIBLE. I ASKED

IF THE GOP IS CONTINUING ITS CONTACTS WITH THE IMF.
THE MINISTER SAID YES, NOTING THAT SAENZ WANTS TO SEND
A TEAM TO WASHINGTON AT THE END OF THIS WEEK TO RESUME
NEGOTIATIONS. HE - DE LA PUENTE - OPPOSES THIS IDEA,
HOLDING THAT SAENZ HIMSELF SHOULD GO.

3. THE JUNTA AND THE ECONOMIC TEAM MET AGAIN YESTERDAY
TO DISCUSS THE "PACKAGE". THE MINISTER INDICATED THAT
OPPOSITION, INCLUDING HIS OWN, TO ANY MOVEMENT OF THE
EXCHANGE RATE AT THIS TIME IS WRONG. THE GOP ALSO CON-
TINUES TO DEBATE THE GASOLINE PRICE AND A POSSIBLE RETURN
TO A SYSTEM OF LIMITING THE CIRCULATION OF PRIVATE
VEHICLES. DEFICITS IN THE STATE ENTERPRISES ARE THE
BIGGEST "HEADACHE". PETOR-PERU OWES ABOUT \$ONE BILLION
AND AT SOME POINT WILL HAVE TO LOOK FOR ITS OWN OUTSIDE
FINANCING. DE LA PUENTE ALSO SAID THE GOP WOULD ASK FOR
INCREASED FOOD AID FROM US, PARTICULARLY SCHOOL LUNCH
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FEEDING, AS A HELP IN COPING WITH THE SUBSIDIES PROBLEM.
I REPLIED THAT WE ARE EXPANDING OUR TITLE II PROGRAM
AND WOULD TRY TO CONTINUE TO BE HELPFUL.

4. THE MINISTER SAID THAT GENERAL RICHTER HAD BEEN
COMPLETELY SUCCESSFUL IN MOSCOW: THE PERUVIANS WILL PAY
NOTHING, NOT EVEN INTEREST, ON THE GOVERNMENT-TO -
GOVERNMENT DEBT THROUGH THE PERIOD 1978-80. THE
"20 PERCENT" REFERRED TO BY RICHTER COMPRISES "COMMERICAL DEBT"
OF ABOUT \$15 MILLION A YEAR OWED TO SOVIET STATE TRADING
ORGANIZATION AND THE LIKE. THAT WILL ALSO BE RE-
SCHEDULED, BUT NOT ON SUCH ADVANTAGEOUS TERMS. DE LA
PUENTE NOTED THAT HE THOUGHT THE GOP SHOULD ALSO SEEK
RELIEF ON INTEREST PAYMENTS FROM OTHER CREDITORS:
"PERU NEEDS THE CHANCE TO BREATHE." HE STATED FLATLY
IN THIS CONTEXT THAT THE IDB HAS AGRED TO FORM A
"CONSULTATIVE GROUP" ON PERU'S DEBT, BUT SUBJECT TO
PRIOR GOP-IMF AGREEMENT ON STANDYB CONDITIONS.

(COMMENT: DE LA PUENTE OBVIOUSLY THOUGHT THAT THIS
MEANT DEBT RESCHEDULING UNDER IDB AUSPICES. BUT THE REFERENCE
TO "CONSULTATIVE GROUP" MAKES ME WONDER IF THE BANK HAS

SOMETHING ELSE IN MIND.)

5. DE LA PUENTE OBSERVED THAT BUSHNELL BROUGHT UP THE WEST GERMAN SUBMARINES. HE WANTED TO ASSURE ME THAT

THESE HAD BEEN CONTRACTED FOR PRIOR TO THE PRESIDENT'S DECISION NOT TO ACQUIRE MORE ARMS. I SAID WE FULLY UNDERSTOOD THAT BUT WERE DEEPLY CONCERNED ABOUT THE EFFECT OF THIS COSTLY PRUCHASE ON PERU'S DEBT STRUCTURE AND ABOUT THE COMPLICATING EFFECT THE CONTRACTING OF \$200-300 MILLION DOLLARS OF NEW DEBT WITH MATURITIES COMING DUE IN THEEARLY 80'S COULD HAVE ON THE RE-SCHEDULING PROBLEM. THE MINISTER SAID ADMIRAL PARODI IS CURRENTLY NEGOTIATING WITH ALL THE EUROPEAN NAVAL-
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EQUIPMENT CREDITORS AND WOULD BE BACK SOON TO REPORT. I REPEATED THAT THERE IS GREAT CONCERN IN THE USG ABOUT THIS TRANSACTION. DE LA PUENTE ASKED THAT I ASSURE MY GOVERNMENT OF HIS PERSONAL COMMITMENT AS THE FOREIGN MINISTER AND A RESPONSIBLE MEMBER OF THE "NATIONAL SECURITY COMMISSION" THAT NO NEW ARMS PURCHASES ARE TAKING PLACE AND NONE WILL TAKE PLACE DURING "THE LIFE OF THIS GOVERNMENT". HE SAID THE GOP WILL BE PREPARED TO MAKE THAT A FULLY BINDING COMMITMENT BY INCLUDING IT AS A "SUSPENSE CLAUSE" IN ANY RESCHEDULING AGREEMENTS IT SIGNS. ON TAKING LEAVE, I ASKED THE MINISTER TO KEEP ME INFORMED CURRENTLY ON THE SUBMARINE TRANSACTION.
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